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California Focus: California chases its own tail on taxes

State agencies waste time, money paying taxes to other arms of government

By MICHELLE STEEL

REPRESENTS ORANGE AND LOS ANGELES COUNTIES ON THE STATE BOARD OF EQUALIZATION

In 2003, United Parcel Service made a seemingly insignificant decision that continues to save the company millions of dollars every year. Drivers shaved seconds off each delivery by minimizing the number of left turns. By avoiding the left turn lane, the company saved 28 million miles, 31,000 metric tons of carbon-dioxide emissions and over 3 million gallons of gasoline.

Facing a projected \$17 billion budget deficit, it's time for California's legislators to employ similar out-of-the-box thinking to solve our deficit. One innovative way that the state can save money is by exempting state agencies from cumbersome tax regulations.

Unnecessary tax regulations are costing state agencies millions of dollars every year in wasted staff time and lost interest. Right now, when any state agency buys any tangible personal property, it owes itself sales and use tax.

For example, Caltrans purchases a fleet of trucks from an Orange County car dealership. The state owes 7.75 percent sales tax on top of the vehicles' purchase price. The car dealership must collect the tax from the state and send a tax payment to the state later that month or calendar quarter. In the process, the state loses valuable use of that money, which the state treasurer could invest to earn interest.

No one is served by the status quo. State agencies must spend a greater portion of their budgets to buy a product. The retailer must process and collect a state tax, without any reimbursement for administrative costs. The state Board of Equalization must process the tax payment – all of this so that the state can transfer money from one bank account to another.

On the surface, a few months' lost interest may seem insignificant. But, add up the interest on the state's estimated \$4 billion worth of tangible personal property, and that interest makes a big difference.

Nowhere is the state's tax system more wasteful than with state agencies' compliance with the little-known and ill-understood use tax. Whenever any taxpayer buys a product from out of state, he owes California a use tax. If the state's National Guard buys a tank from the federal government, the Guard must file and pay use tax on the purchase. Again, the state agency

needlessly complies with a paperwork nightmare in order to transfer money from the Guard's account to the general fund.

The problem gets worse when you analyze the use-tax records for these state agencies. Due to taxpayer confidentiality laws – which even apply to state agencies – I cannot disclose the problems associated with specific state agencies. However, there are numerous examples of state agencies filing duplicate use-tax returns, paying interest, penalties and late fees on incomplete returns and even wasting thousands of hours in agency audit time.

In the most egregious example of waste, the State Board of Equalization spent over 2,200 hours auditing an Orange County state university. Again, the only impact of a BOE tax audit is to transfer money away from Orange County and to the general fund.

It would be easy to attack state agencies for this wasteful process, but it is not their fault. California's tax code explicitly requires state agencies to pay both sales and use taxes. Legally, every state department must pay the tax or face costly fines and penalties.

The solution to this paperwork problem is simple: exempt state agencies from sales and use taxes. It would be easy for state agencies to implement and even easier for state retailers to enforce. Both wholesalers and the federal government are currently exempt from sales and use tax.

State lawmakers still trying to agree on a new budget are considering billion-dollar budget cuts and tax increases. Before legislators make a difficult choice between the two, they need to start with the easy money-saving solutions. It's time to eliminate the figurative left turns in state government.